



NARUC-IOGCC Long Term Contracts Recommendation

Ohio Commissioner
Donald L. Mason, Esq.
Chairman NARUC Gas
Committee

Origin and Assignment

- May of 2005 Governor Frank Murkowski of Alaska asked NARUC and IOGCC to look at the concept of supporting long-term contracts.
 - NARUC accepted the assignment
- Leadership team organized a work schedule that included a Notice of Inquiry (NOI), prepared statements and filed comments
- Additionally, NRRI assisted the process
- NARUC and IOGCC Commissioners and staff were assigned to the task force

EEI and Alliance of Energy Suppliers Comments

- Represented investor owned electricity suppliers and marketers including affiliate and independent power producer.
- “While a portfolio of short, medium and long-term contracts may provide the best risk mitigation for customers, utilities may be hesitant to enter into longer term contracts for fixed charges that that might be second guessed”

Electricity comments (cont.)

- “...the regulatory process should provide confidence that a well managed natural gas portfolio with short, medium and long term contracts will not be found imprudent based on unexpected changes in market design or market fundamentals after the long-term contracts are signed”
- “best accomplished through a collaborative approach between the generator and regulator before the long-term contracts are signed”

Natural Gas Suppliers

NGSA asked state commissions to:

- Foster a stable, transparent and consistent regulatory environment for energy infrastructure development and supply and transmission contracting decisions
- Allow LDCs to confidently use tools, including long-term transportation and supply contracts...to manage their supply contracts
- Accommodate LDC cost recovery rate structures that allow for the timely recovery of costs prudently incurred to increase supply flexibility

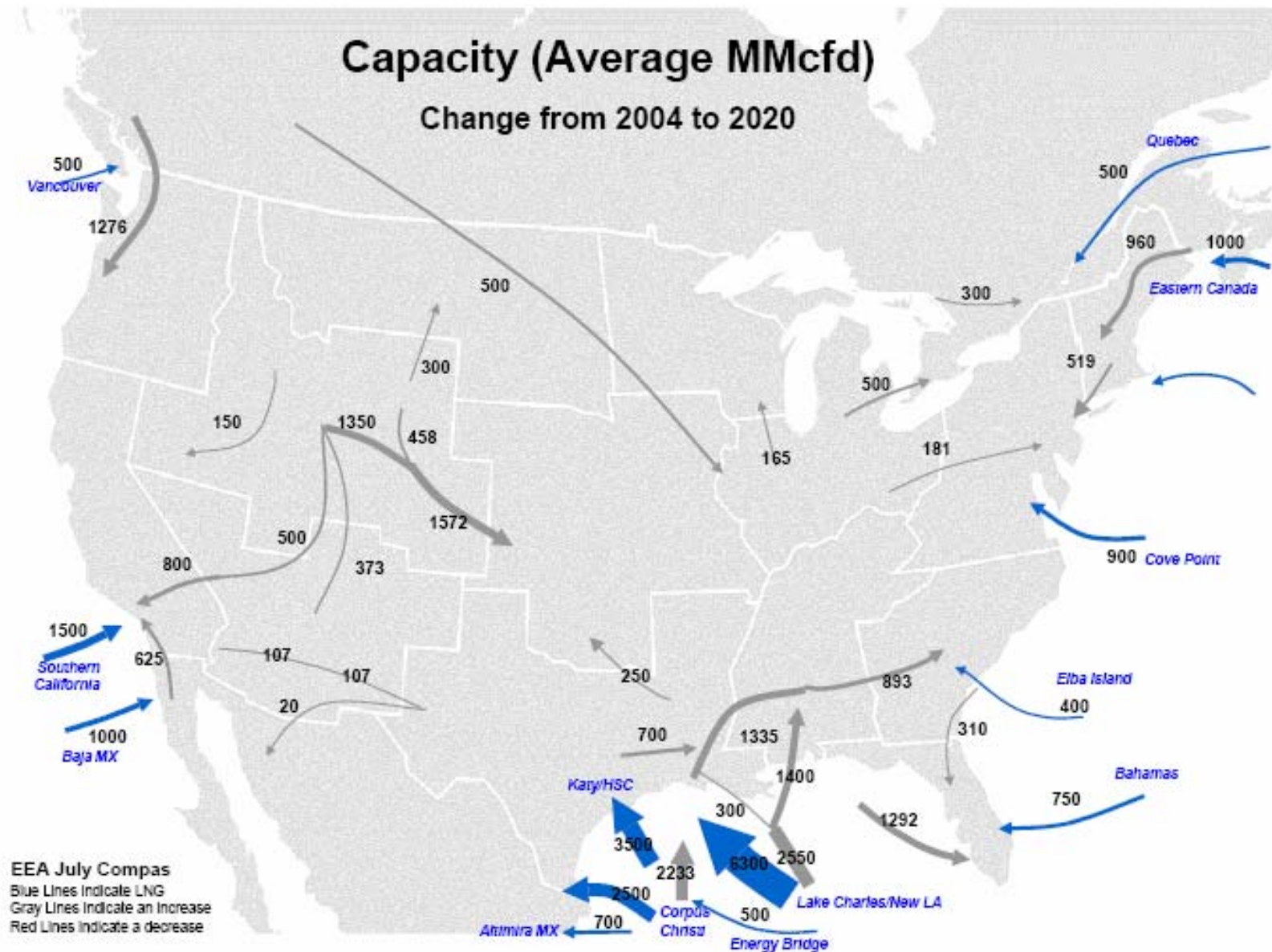
NGSA (cont.)

- “Further, an environment that provides greater regulatory certainty with respect to the treatment of prudently executed contracts and capital expenses associated with new sources of supply, including both LNG and new domestic resources, is vital to ensuring overall infrastructure investment and supply flexibility”
- “...state commissions should allow LDCs to use risk management tools available in the market place for both transportation and supply w/o the threat of hindsight penalties”

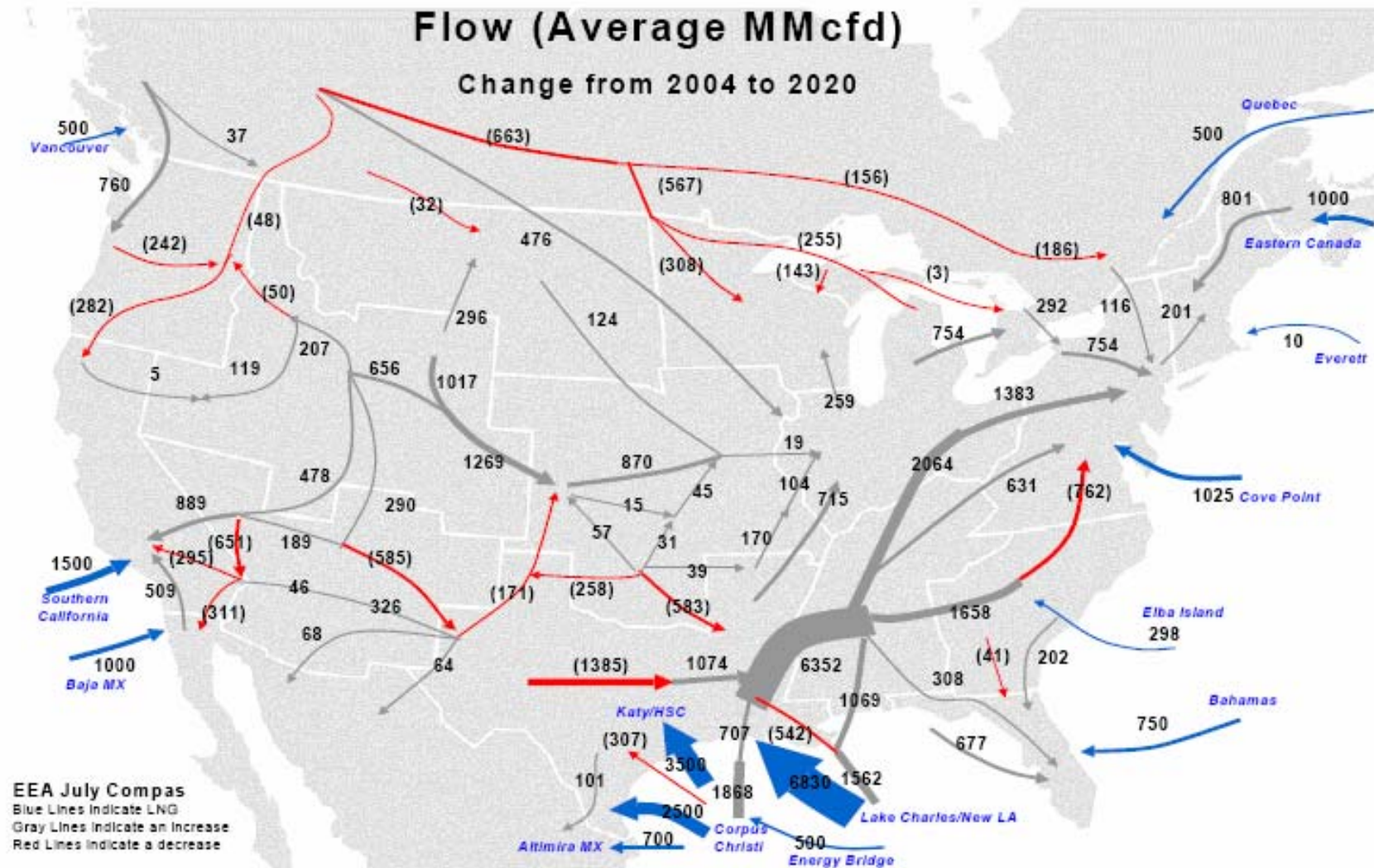
INGAA Comments

- Federal and State regulators should take action to attract capital to pipeline and storage projects
- Approx. \$29 billion is needed for the construction of new pipeline to new supply sources and to new customers
- Another \$16.4 billion is needed to refurbish or replace existing pipeline and compressors to maintain current capacity
- Add \$5.5 billion in underground storage facilities
- Add \$9.4 billion for LNG construction

New Long Haul Requirements

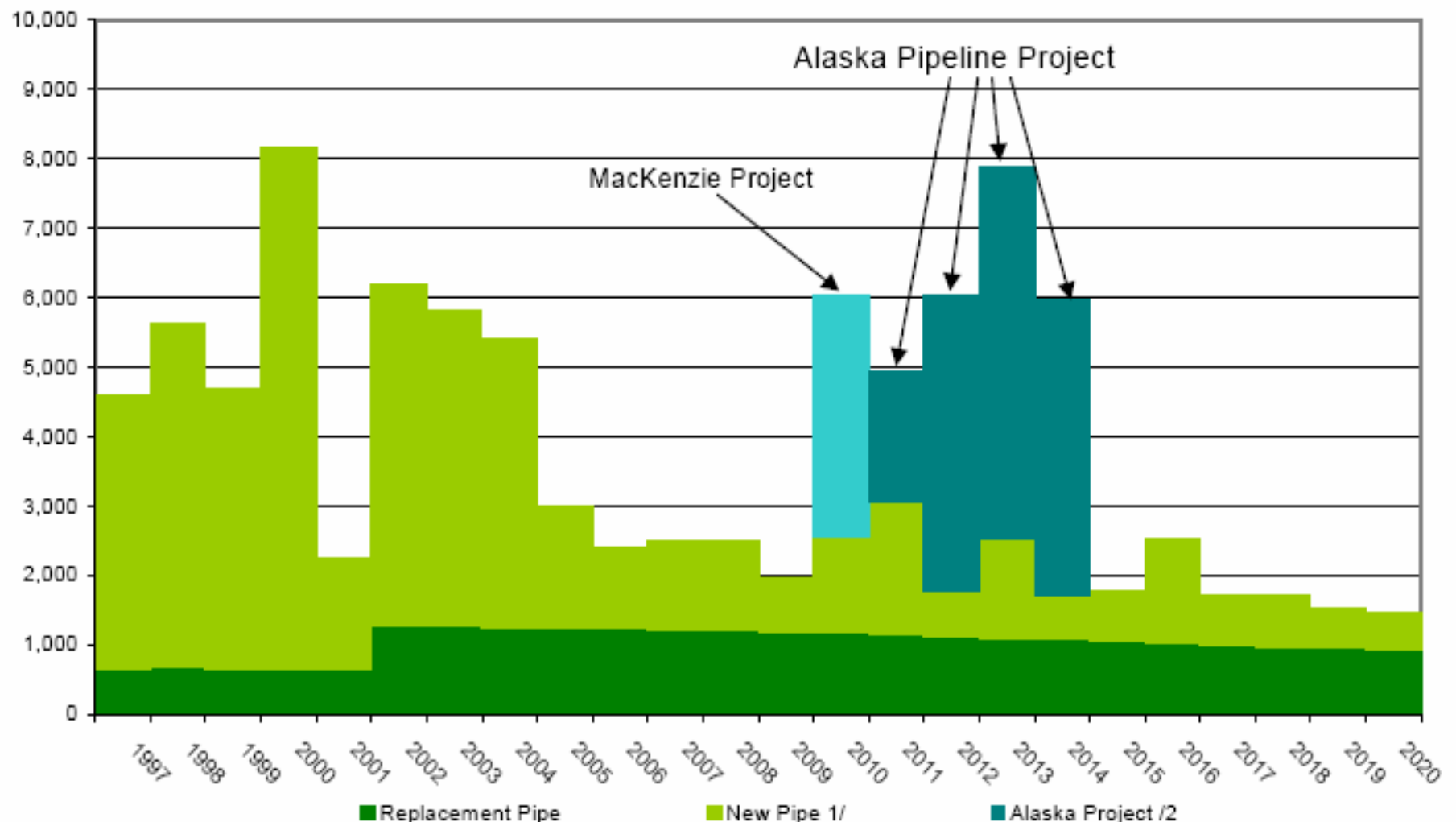


Incremental Flow



Investment Schedule

North America Pipeline Capital Expenditures
Millions of 2004 Dollars



¹ Includes estimates for new transmission pipe, production plant hookup, cost for new underground storage, and power plant connection costs.

² Includes cost of new pipe built to Chicago in conjunction with Alaska Pipeline Project and pipe to connect production plants to the pipeline, but excludes cost of gas processing plants in Alaska and natural gas liquids extraction plants in western Canada.

Project Financing

- Contracts are the means by which parties associated with an investment can assign rights and obligations and allocate risks.
- Equity holders and lenders will evaluate each source of risk and methods of mitigating those risks prior to committing money
- Long-term contracts are a way of reducing risks to developers and lenders on large-scale/long-term energy supply contracts.
- Long-term contracts can assure a minimum amount of sales or throughput occurs and ensures a revenue stream

Regulatory Objectives

- Encourage actions that promote investment in pipeline and storage projects, additional infrastructure is needed.
- Consider long-term contracts as an important component in a gas utility portfolio strategy.
- Encourage gas utilities to develop long term strategies for capacity and supply to access NEW and expanded natural gas and LNG supply sources.
- Do not discourage long-term contracts when a record appears to support their use.
- Consider pre-approval when necessary.

Communicate

- The consensus of the NARUC–IOGCC report is that the regulatory authority, the stakeholders and regulated utility need to engage in constructive dialogue focused on the long term forecast for natural gas.
- Those discussions should be on a state by state and utility by utility basis as each situation will be unique.